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In course of luncheon conversation yesterday with Counselor of Yugoslav Embassy Bozovic, latter made several remarks of some interest. With regard to Yugoslav-Soviet economic relations, he indicated that notes (two Soviet and one Yugoslav) printed in Moscow papers July 1, did not accurately reflect situation. From reading notes, one would have impression that Soviets were merely strongly proposing postponement of promised industrial development credits to Yugoslavs, and it was possible to infer that, pending Yugoslav concurrence, there would be no change in original agreement. In fact, however, several days after Yugoslav receipt of Soviet note "proposing" postponement, Yugoslavs discovered that their line of credit in Soviet banks had already been canceled and that nothing could proceed except on cash basis.

Yugoslavs do not concede validity of Soviet contention that increase in investment in Soviet chemical industry is legitimate ground for diverting credits from Yugoslavs. In first place, they note that Soviets have promised foreign credits elsewhere during same period, and in second place, new domestic programs are no excuse for breach of international contract. Belgrade has also decided that it would not be

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very wise to accept Soviet offer of increased trade in fertilizers and other materials to replace what Yugoslavs could have expected to receive from own factory built with Soviet credits. Bozovic points out that, apart from fact that Soviets themselves are short of fertilizer, Yugoslavs would be stupid to become dependent on obviously unreliable Soviet sources. Nevertheless, he said that Belgrade might agree for the record to talk with the Russians on situation regarding credits, although it was clear that Russians would not accept anything but their own terms of postponement.

On internal Soviet matters, Bozovic did not have much to offer except certainty that foreign policy must have been discussed at recent Central Committee plenum ostensibly devoted to agricultural pricing. He was also positive that Suslov had not returned to Moscow to attend plenum. He conceded possibility that Khrushchev would attend East German Party Congress, but he had heard that reason for 10 day postponement of visit of Austrian Chancellor to Moscow was not Berlin affair, but contemplated Khrushchev trip to Peking.

Regarding satellite situation, he was quite gloomy and made it plain that Yugoslavs are being thoroughly ostracized by East European diplomats in Moscow with whom they had formerly had some contacts. Only exception is continuation of some social meetings with Poles. He admitted that Poland is in very difficult situation, but did not think that Gomulka was pursuing sensible course in appeasing Moscow, since this would only lead to loss of his popular support in Poland (a process which he thought had already begun). He was also somewhat disillusioned by Gomulka's strong anti-Yugoslav line evidenced in Gdansk speech, and was not altogether willing to ascribe this only to Soviet pressure. He admitted that Poland was caught by geography and said that Russians were trying to tie Poles up ever more firmly into Soviet bloc economic arrangements. He

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mentioned that both China and Russia had recently signed expanding trade agreements with Poles calling for large increase in Polish exports, particularly of machinery and other manufactured items, to those countries. He made it clear that he understood that Soviets were much opposed to continuation of annual Polish-American economic agreement, and he was surprised to hear that there might be a renewal of this arrangement, which, however, he thought all to the good if it were consummated.

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